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Tax

A sum that legislation imposes upon persons (broadly defined to include individuals, trusts, estates, partnerships, associations, companies, and corporations), property, or activities to pay for government operations. The power to impose and collect federal taxes is given to Congress in Article I, Section 8, of the U.S. Constitution. Collections that arise from the sovereign powers of the federal government constitute the bulk of governmental receipts, which are compared with budget outlays in calculating the budget surplus or deficit. (*See also* Government Receipts *under* Collections; Revenue.)

Tax Credit

An amount that offsets or reduces tax liability. When the allowable tax credit amount exceeds the tax liability and the difference is paid to the taxpayer, the credit is considered refundable and is considered an increase in outlays in the federal budget. Otherwise, the difference can be (1) allowed as a carryforward against future tax liability, (2) allowed as a carryback against taxes paid, or (3) lost as a tax benefit. (*See also* Tax Expenditure.)

Tax Deduction

An amount that is subtracted from the tax base before tax liability is calculated.

Tax Expenditure

A revenue loss attributable to a provision of the federal tax laws that (1) allows a special exclusion, exemption, or deduction from gross income or (2) provides a special credit, preferential tax rate, or deferral of tax liability. Tax expenditures are subsidies provided through the tax system. Rather than transferring funds from the government to the private sector, the U.S. government forgoes some of the receipts that it would have collected, and the beneficiary taxpayers pay lower taxes than they